



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
JOHNSON COUNTY CLERK**

Calendar Year 2000

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JOHNSON COUNTY CLERK

Calendar Year 2000

The Johnson County Clerk was issued an unqualified opinion. However, the audit did reveal noncompliances which are listed below.

- The County Clerk Should Eliminate The Deficit of \$3,600 In Her 2000 Fee Account
- The Fiscal Court Should Provide Funding To The County Clerk In The Amount Of \$4,915 For Calendar Year 2000
- The County Clerk Should Report And Pay Deed Tax On A Quarterly Basis
- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable R. T. Daniel, Johnson County Judge/Executive

Honorable Betty Jo Conley, Johnson County Clerk

Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Johnson County Kentucky, for the year ended December 31, 2000. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2000, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable Betty Jo Conley, Johnson County Clerk
Members of the Johnson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 3, 2001, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The County Clerk Should Eliminate The Deficit of \$3,600 In Her 2000 Fee Account
- The Fiscal Court Should Provide Funding To The County Clerk In The Amount Of \$4,915 For Calendar Year 2000
- The County Clerk Should Report And Pay Deed Tax On A Quarterly Basis
- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 3, 2001

JOHNSON COUNTY
 BETTY JO CONLEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2000

Receipts

State Fees For Services	\$	8,581
Fiscal Court		8,331
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	534,964
Usage Tax		2,144,655
Tangible Personal Property Tax		1,201,369
Licenses-		
Fish and Game		11,480
Marriage		9,798
Occupational		128
Deed Transfer Tax		26,107
Delinquent Tax		331,441
		4,259,942
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	\$	13,200
Real Estate Mortgages		11,784
Chattel Mortgages and Financing Statements		64,311
Powers of Attorney		1,572
All Other Recordings		37,630
		128,497
Other:		
Miscellaneous Fees	\$	18,101
Over and Short		9,542
		27,643
Interest Earned		2,781
Gross Receipts	\$	4,435,775

JOHNSON COUNTY
 BETTY JO CONLEY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 408,521	
Usage Tax	2,077,554	
Tangible Personal Property Tax	454,243	

Licenses-

Fish and Game	11,230	
Delinquent Tax	41,865	
Legal Process Tax	20,854	
Candidate Filing Fees	300	\$ 3,014,567

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 112,424	
Delinquent Tax	31,081	
Deed Transfer Tax Paid	13,546	
Deed Transfer Tax Due	11,246	
Occupational Licenses	102	168,399

Payments to Other Districts:

Tangible Personal Property Tax	\$ 581,217	
Delinquent Tax	172,491	753,708

Payments to Sheriff

9,344

Payments to County Attorney

51,967

Operating Disbursements:

Personnel Services-

Deputies Salaries	\$ 224,046	
Part-Time Salaries	10,247	
Overtime Gross	482	

Employee Benefits-

Employer's Paid Health Insurance	43,297	
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JOHNSON COUNTY
 BETTY JO CONLEY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Disbursements (Continued)

Contracted Services-		
Printing and Binding	\$	7,903
Materials and Supplies-		
Office Supplies		15,073
Rentals		4,936
Other Charges-		
Conventions and Travel		18
Dues		750
Postage		4,015
Professional Fees		4,229
Bad Checks		7,312
Refunds		17,400
Maintenance and Repairs		14,836
Miscellaneous Payments		<u>2,527</u>
	\$	357,071
Debt Service:		
Lease Purchases		<u>22,092</u>
Total Disbursements	\$	<u>4,377,148</u>
Net Receipts	\$	58,627
Less: Statutory Maximum		<u>63,542</u>
Balance	\$	(4,915)
Balance Due From The Fiscal Court For Clerk's Statutory Maximum		<u>4,915</u>
Excess Fees Due County For Calendar Year 2000	\$	<u><u>0</u></u>

The accompanying notes are an integral part of the financial statement.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

JOHNSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2000
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of April 10, 2000, FDIC insurance did not equal or exceed the amount on deposit, leaving \$236,919 of public funds uninsured and unsecured. The County Clerk did not have a written agreement with the depository institution for a pledge of assets to secure the Clerk's deposits.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of April 10, 2000.

	<u>Bank Balance</u>
Insured by Federal Deposit Insurance Corporation	\$ 100,000
Uncollateralized and uninsured	<u>236,919</u>
Total	<u><u>\$ 336,919</u></u>

Note 4. Leases

- A. The County Clerk entered into a term lease agreement with IBM Corporation for a computer system to be used for indexing. The lease is for five years and requires annual payments of \$22,092.
- B. The County Clerk entered into a lease agreement with Lucent Technologies for telephone equipment. The lease is for four years and requires monthly payments of \$183.

JOHNSON COUNTY
BETTY JO CONLEY, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 2000

Assets

Cash in Bank	\$ 138,924
Deposits in Transit	58,009
Receivable Due from Fiscal Court for Clerk's Salary	<u>4,915</u>
Total Assets	<u>\$ 201,848</u>

Liabilities

Paid Obligations:	
Outstanding Checks and Liabilities	\$ 194,202
Unpaid Obligations:	
Deed Transfer Tax	<u>11,246</u>
Total Liabilities	<u>\$ 205,448</u>
Total Fund Deficit as of December 31, 2000	<u><u>\$ (3,600)</u></u>

COMMENTS AND RECOMMENDATIONS

JOHNSON COUNTY
BETTY JO CONLEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

Calendar Year 2000

STATE LAWS AND REGULATIONS:

The County Clerk Should Eliminate the Deficit of \$3,600 in Her 2000 Fee Account

The County Clerk has a deficit of \$3,600 in her 2000 Fee Account. The deficit is due to the Clerk receiving an expense allowance of \$3,600 to which she was not entitled. KRS 64.017 states the County Clerk may receive an expense allowance of \$3,600 from fees if fees are available. The County Clerk received the full \$3,600 expense allowance for calendar year 2000. However, fees from operations were not high enough to cover the \$3,600 expense allowance. The County Clerk should not have received any of the \$3,600 expense allowance. We recommend the County Clerk deposit \$3,600 of personal funds to eliminate the deficit in her 2000 Fee Account.

County Clerk's Response:

I was not aware that the expense account wasn't part of my maximum salary. I have deposited the full \$3,600 back in the account.

Auditor's Note:

On May 10, 2001, the Johnson County Clerk deposited \$3,600 of personal funds to eliminate this deficit.

The Fiscal Court Should Provide Funding To The County Clerk In The Amount Of \$4,915 For Calendar Year 2000

During Calendar Year 2000, the County Clerk's office fee account expended \$4,915 more for allowable expenditures than it received in fees and other revenue receipts. This fiscal condition prevented the County Clerk from receiving her full statutory maximum salary in accordance with the salary schedule set out in KRS 64.5275. KRS 64.535 states that "the . . . clerk shall . . . receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275." This statute mandates that the County Clerk is entitled to receive her statutory maximum salary, even if her office fails to generate sufficient fees and other revenues to cover all allowable expenses of her office, including the salary of the County Clerk as set out in the salary schedule in KRS 64.5275. Thus, because the County Clerk's office has a revenue shortfall and is unable to pay all allowable expenses, including the expense of the Clerk's maximum salary, out of the fees and other revenue generated by her office, it is the responsibility of the fiscal court to provide funding for the County Clerk's statutory maximum salary amount for Calendar Year 2000. The Johnson County Fiscal Court should fund the County Clerk's statutory maximum salary amount for calendar year 2000 by covering the County Clerk's office fee account revenue shortfall of \$4,915.

County Clerk's Response:

None.

JOHNSON COUNTY
BETTY JO CONLEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
Calendar Year 2000
(Continued)

The County Clerk Should Report And Pay Deed Tax On A Quarterly Basis

The County Clerk did not report or pay deed transfer tax to the Fiscal Court during calendar year 2000. However, on January 17, 2001, the County Clerk paid the Fiscal Court \$13,546 for deed transfer tax due for calendar year 2000, leaving a balance of \$11,246 still due the County. According to KRS 142.050(4) the County Clerk shall retain five percent (5%) as her fee for collection and remit the balance every three (3) months to the county treasurer, who shall deposit the money in the county general fund. We recommend the County Clerk report and pay deed transfer tax to the Fiscal Court on a quarterly basis as required by KRS 142.050(4).

County Clerk's Response:

To avoid any oversight of transfer tax, the deed tax is being paid monthly to the fiscal court.

Auditor's Note:

On May 10, 2001, the Johnson County Clerk paid \$6,331 of additional deed tax to the Fiscal Court, leaving a balance of \$4,915 due the Fiscal Court.

The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On April 10, 2000, \$236,919 of the County Clerk's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The County Clerk should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response:

Due to miscommunication between Clerk's office and Bank, this was an oversight that took place because of the time frame between the time it was requested and the actual time it took effect.

PRIOR YEAR:

The County Clerk Did Not Have A Sufficient Pledge of Securities

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Johnson County Clerk as of December 31, 2000, and have issued our report thereon dated April 3, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Johnson County Clerk's financial statement as of December 31, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The County Clerk Should Eliminate The Deficit of \$3,600 In Her 2000 Fee Account
- The Fiscal Court Should Provide Funding To The County Clerk In The Amount Of \$4,915 For Calendar Year 2000
- The County Clerk Should Report And Pay Deed Tax On A Quarterly Basis
- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 3, 2001

